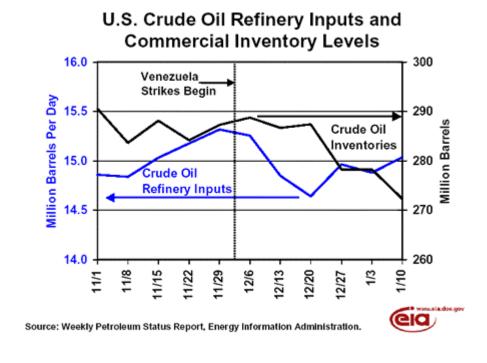
# This Week In Petroleum

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#### **Dominoes**

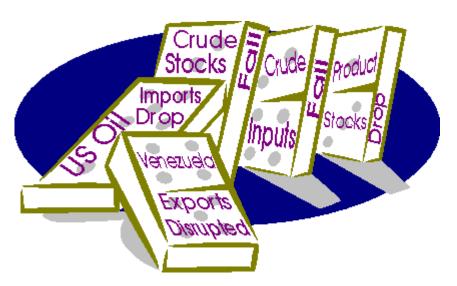
Many of us remember when as kids we would stand dominoes up, one in front of the other, and then tip the first one so that it would fall into the one behind it, starting a chain reaction in which all of the dominoes fell down, one after another. Well, one theory is that this image is analogous to what is currently happening in the U.S. oil market following the disruption in Venezuela oil exports.



Although the origins of weekly crude oil imports are very preliminary and thus not published, it appears that some crude oil from Venezuela continues to arrive into the United States. And, while crude oil imports from Venezuela have increased some over the last two weeks, they continue to be much lower than normal. As Venezuela's largest customer, a dramatic cut in oil exports from Venezuela as a result of their ongoing strikes, has led to U.S. oil imports declining. U.S. crude oil imports over the last three weeks are more than 300.000 barrels per day less than over the same period

a year ago. With U.S. oil production relatively flat and unable to increase to make up for the lost Venezuelan imports, less supply into the U.S. crude oil market means either that less crude oil gets processed through refineries, crude oil inventories are drawn down to replace the lost supply, or a combination of both. As the accompanying graph shows, while crude oil refinery inputs did initially decline following the Venezuela disruption, they recovered somewhat, while inventories have continued to drop. U.S. crude oil inventories now are less than 3 million barrels above the Lower Operational Inventory level of 270 million barrels. While there is nothing to prevent inventories from falling below 270 million barrels, were that to occur, less flexibility would be expected, and according to the National Petroleum Council, localized disruptions in refinery operations could be expected. Clearly, refiners, for many reasons (healthy refinery margins, expectations of higher prices ahead encouraging stock building for the future, building product inventories ahead of schedule refinery maintenance, etc.), have decided to use inventories to maintain refinery inputs.

But just as the reduction of Venezuela imports led to lower U.S. oil imports, which led to lower crude oil inventories, if the situation continues, the next likely domino to fall could be a reduction in crude oil refinery inputs. If crude oil inventories fall further, they will be down to levels that couldn't be drawn down much further, forcing refiners to curtail crude oil inputs into refineries. If this happens, refinery output would also fall and product inventories would need to be drawn down to supply demand for these products. So while all of the dominoes haven't fallen yet, unless additional crude oil supply arrives in the near future, we could be watching the dominoes topple each other over the next month or two.



### Retail Gasoline Price Increases For Fifth Week In A Row

The U.S. average retail price for regular gasoline rose for the fifth week in a row last week, increasing by 1.0 cent per gallon as of January 13 to end at 145.4 cents per gallon. This price is 34.3 cents per gallon higher than last year. Prices throughout most of the country were up, with the largest increase occurring in the Midwest, where prices rose 2.3 cents to end at 144.2 cents per gallon. The Gulf Coast was the only region that saw a price decrease, with prices falling by 0.2 cent to end at 139.9 cents per gallon.

Retail diesel fuel prices decreased last week. falling to a national average of 147.8 cents per gallon as

of January 13. Retail diesel prices were down throughout the country, with the largest price decrease occurring in the Midwest, where prices dropped 2.8 cents per gallon to end at 146.7 cents per gallon.

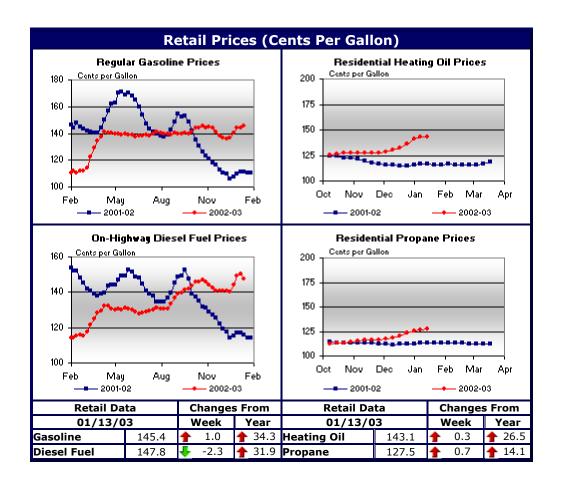
## **Heating Fuel Prices Show Modest Gains This Week**

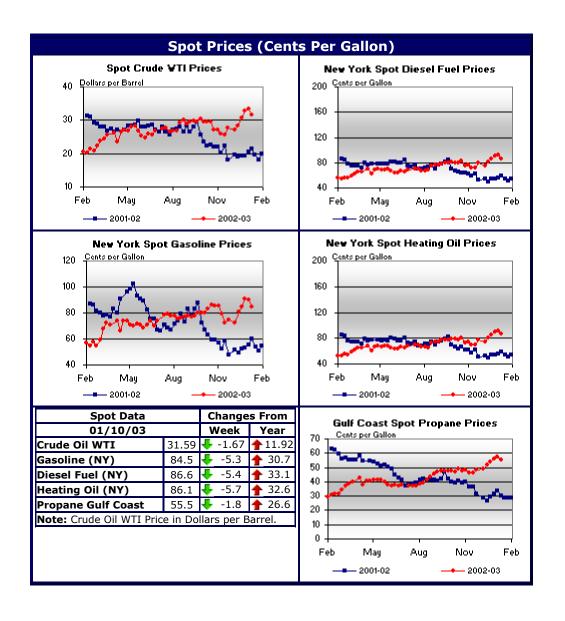
Residential heating fuel prices increased slightly for the period ending January 13, 2003. The average residential heating oil price was 143.1 cents per gallon, up 0.3 cent per gallon from the previous week. Residential propane prices also continued to move upward by 0.7 cent per gallon, rising from 126.8 to 127.5 cents per gallon. Heating oil prices are 26.5 cents per gallon higher than last year at this time while residential propane prices are 14.1 cents per gallon higher than one year ago. Wholesale heating oil prices decreased 6.3 cents per gallon this week, to 88.5 cents per gallon, while wholesale propane prices decreased from 62.9 to 62.0 cents a gallon, down 0.9 cent per gallon.

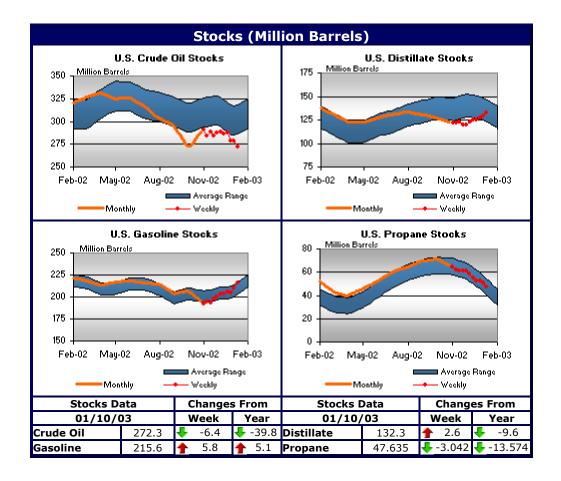
# **Propane Inventories Sharply Lower**

U.S. inventories of propane reported the largest weekly decline of the heating season last week, dropping by more than 3 million barrels just ahead of an arctic air mass that swept through most areas east of the Rockies. As of the week ending January 10, 2003, U.S. inventories stood at an estimated 47.6 million barrels, a level that continues to track within the average range for this time of year. Regionally, Gulf Coast inventories accounted for about two-thirds of the weekly stock draw with a nearly 2.0 million decline, followed by a 0.5 million-barrel drop in the Midwest and a 0.4 million-barrel decline in the East Coast during this same period. All regional inventories remain within their respective average ranges as of last week.

Note: Text from the previous editions of "This Week In Petroleum" is now accessible through a link at the top right-hand corner of this page.







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